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ZNR UUUUU ZZH
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FM AMEMBASSY MEXICO
TO RUEHC/SECSTATE WASHDC PRIORITY 5826
RUEHRC/DEPT OF AGRICULTURE WASHDC
RUCPDO/DEPT OF COMMERCE WASHDC
RHEBAAA/DEPT OF ENERGY WASHINGTON DC
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UNCLAS SECTION 01 OF 03 MEXICO 001330

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SUBJECT: MEXICO,S TWO SUGAR CANE PRODUCERS ASSOCIATIONS
HAVE VERY DIFFERENT VIEWS ON ETHANOL

REF: MEXICO 0130

¶1. SUMMARY: Embassy personnel recently met with representatives of Mexico,s National Union of Sugar Cane Producers (UNPCA) and the National Union of Cane Growers (UNC) to discuss these two organizations, views on increasing Mexican ethanol production. The cane producers are the intermediaries between the unionized sugar workers (who cut cane and work in the mills) and the mill owners/operators who make up the sugar industry. Of these three segments of sugar production in Mexico, the cane producers appear to be the ones who have thought most about what the country needs to do to increase ethanol production. That said, they have very different views on the near term future of ethanol production in Mexico. According to the UNPCA, many of the elements needed to increase sugar cane based ethanol production are beginning to fall into place. The UNC, however, is much less optimistic about the prospects for increased production of sugar cane-based ethanol without significant investments and changes in the way sugar is produced in Mexico. END SUMMARY

A TALE OF TWO SUGAR CANE PRODUCERS

¶2. Embassy personnel responsible for energy, agriculture and labor recently met with representatives of Mexico,s National Union of Sugar Cane Producers (UNPCA) to discuss that organization's views on increasing Mexican cane based ethanol production. A short time later post,s Labor Counselor met separately with the National Union of Cane Growers (UNC) to confer on this same issue. Although the UNPCA and UNC both call themselves &unions8 it would be more accurate to describe them as commercial or trade associations. The cane producers are the intermediaries between the unionized sugar workers (who cut cane and work in the mills) and the mill owners/operators who make up the sugar industry.

¶3. The main differences between the two organizations are their ages, degree of political affiliation and level of international contacts. The UNPCA is the older of the two cane producing organizations and is formally a part of the National Confederation of Farmers) CNC. The CNC is an

integral part of Mexico,s former ruling party, the Institutional Revolutionary Party (PRI). Strictly speaking the National Union of Cane Growers)UNC- is also closely associated with the PRI but is not part of its formal structure. The UNC was formed in 1973 and maintains a high level of international contacts and is a formal member of International Sugar Organization and the International Federation of Agricultural Producers. Both the UNPCA and the UNC agreed that it was feasible to significantly increase sugar cane based ethanol production and even agreed on many of the steps required to make increased cane based ethanol in Mexico. They differed significantly however on how close Mexico was to achieving the steps needed to make increased ethanol production a reality.

THE GLASS IS MORE THAN HALF FULL

¶4. In meeting with the National Union of Sugar Cane Producers (UNPCA), Embassy personnel were presented with a scenario which clearly showed that the organization had given great thought to the actions that would be needed to increase Mexico,s production of sugar cane based ethanol. They were aware that the legal framework needed to support increased ethanol production was still pending the approval of a national Bio-fuels Law and of implementing legislation for a Sugar Law passed in 2006. The UNPCA acknowledged that the current pricing structure for sugar in Mexico would prohibit the production of sugar cane based ethanol at an economical price (in comparison to sugar for human consumption or the world price of petroleum). The UNPCA representatives also seemed aware of the steps needed to achieve greater ethanol

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production such as increasing the amount of land under sugar cane cultivation, the need to build plants devoted to ethanol, develop a plan to get the ethanol to Mexico,s energy producers (petroleum and electricity) and the need to deal in some form or other with Mexico,s sugar workers (cane cutters and mill workers) union.

¶5. According to the UNPCA (and the UNC), the current structure of Mexico,s sugar industry is completely incapable of taking the steps needed for increased ethanol production. The semi controlled price of Mexican sugar, which is one of the highest in the world, makes it uneconomical to produce cane for ethanol as opposed to cane for human consumption. Their solution to this was to create a totally new and parallel ethanol industry totally independent of Mexico,s current sugar industry. The new ethanol industry would expand the planting of sugar cane to new fields which the UNPCA says it has already identified in order to avoid competing for sugar currently destined for Mexico,s food related industries. It would build new, modern production facilities totally dedicated to producing ethanol production. Finally, this new industry would work with the sugar workers union to establish a new hiring and employment structure that is more flexible than the ones that currently exists in Mexican sugar mills.

¶6. In order to finance the establishment of this new ethanol industry the UNPCA representatives stated they had been in contact with Japanese, European and Brazilian interests who were prepared to invest in Mexico. Despite its close affiliation with the Mexico,s PRI political party the UNPCA underscored that its membership was composed of cane producers associated with parties across the Mexican political spectrum and as such the had no concerns that their plans for establishing a new ethanol industry would meet any political resistance.

¶7. Interestingly, in response to a direct question about working with the GOM in general and Mexico,s Labor Secretariat in particular, the UNPCA representatives stated

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that involving they want no contact with the GOM as that would be the surest way to prevent the new industry from ever getting off the ground. That one negative note notwithstanding, the UNPCA representatives responded optimistically to all the question put to them by Embassy personnel and assured us that the establishment of new and independent sugar cane based ethanol industry was well on its way to becoming a reality.

THE GLASS IS REALLY ALMOST EMPTY

18. Over the course of an extended meeting at the offices of the National Union of Cane Growers (UNC), post,s Labor Counselor received a very different take on the prospects for the increased production of sugar cane based ethanol in Mexico. The leadership of the UNC is in close agreement with their colleagues in the UNPCA that Mexico will needed to create a parallel ethanol industry if it wishes to significantly increase the production of this alternative fuel. However, this was probably the only point regarding sugar cane based ethanol on which the UNC and UNPCA agreed.

19. In the UNC,s view, the most overarching problem preventing an increase in the production of sugar cane based ethanol was the overall availability, or more specifically the lack thereof, of sugar cane. The UNPCA saw no real problems in meeting the current demand for sugar in Mexico. However, the UNC said, Mexico,s current demands for sugar and its capacity to meet those demands are almost in prefect synchronization with nothing left over to spare.

110. For example, the UNC estimated that in 2007 the total production of Mexico,s sugar industry would be about 5.6 million tons (MT). The UNC then compared that estimate with expected demand which it said would be roughly 5.5 MT with nothing left for the production of ethanol. According to the

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UNC, the pattern production just barely meeting demand will almost certainly be repeated in 2008 and 2009. This problem could be solved by increase cultivation but that would not address the problem of the comparative cost/benefits.

111. At present one ton of sugar cane will yield 120 kilos of sugar with a market price to the producer in Mexico of some USD 72.00. That same ton of sugar cane will yield 80 liters of ethanol with a market price to the producer of USD 32.00) 40.00. Under those circumstances, the UNC asked rhetorically, what producer is going to sell their cane to someone interested in producing ethanol. The UNC speculated that under some sort of renewable energy program a system of subsidies might make sugar cane based ethanol profitable to the producer but that would not be very efficient and it would require the approval/participation of the Mexican government,s Energy Secretariat, Secretariat of Agriculture, the office of the President and the Treasury Secretariat. And even then, the UNC added, that assumes that all the other factors mentioned by the UNPCA fell into place and that the sugar workers union could be persuaded to negotiate flexible employment conditions. In short, the UNC concluded, it is possible to increase sugar cane based ethanol in Mexico but doing any time soon would require a great deal of luck, cooperation and a change of hard economic facts.

COMMENT

112. After talking with Mexico,s two main sugar cane producers it is clear that they have both given a great deal of thought to increasing the country,s capacity to produce ethanol. Both producers seem to be in agreement on the steps that need to be taken to increase cane based ethanol production but they differ markedly on how easy or difficult

it will be to take those steps. At present it appear that the UNC has taken a more realistic view of the difficulties involved in the economic production of cane-based ethanol in Mexico, but even that organization believes that ultimately it can be done. It appears, however, that a great deal of work still remains to be done before significant gains can be achieved.

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